

The
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and
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FREE
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A SYMPOSIUM

FELIX MORLEY • HERRELL DEGRAFF
F. A. HAYEK • JOHN DAVENPORT

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FREE
ENTERPRISE

A SYMPOSIUM PRESENTED AT THE
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Introduction

In its battle against the concept of a centrally controlled and directed economy — and in defense of free competitive enterprise — American industry faces an array of formidable and resourceful foes.

Too often business men have tended to base their defense of capitalism primarily, if not entirely, on the ground of its material benefits. Proponents of socialism have been quick to take the advantage offered, by claiming that the philosophy of the Welfare State is by contrast humanitarian, unselfish and actively idealistic.

To provide ammunition against this seductive argument and against governmental interventionism—the ammunition that many a business executive heretofore has sought in vain—the National Association of Manufacturers set aside a whole day's program at its 1961 Congress of American Industry in December.

For its program the NAM program committee turned to that group of scholars whose concern for the competitive market is not based merely on its efficiency, but rather on the basic concept of human freedom which free enterprise reflects. A question of the most vital importance for the future of American industry was propounded: Can it be convincingly demonstrated that private business in the United States habitually operates in accordance with the American tradition, in conformity with the Constitution, and in support of those Christian principles which are the basis of Western Civilization?

To answer this question the NAM called upon Dr. Felix Morley, former Editor of the *Washington Post* and President of Haverford College; Dr. Herrell DeGraff, Babcock Professor of Food Economics at Cornell University; Dr. Friedrich A. Hayek, Professor of Social and Moral Science at the University of Chicago; and Mr. John Davenport, former Editor of *Barron's* and now Assistant Managing Editor of *Fortune*. Those familiar with the writings of these men will recognize that their specialization goes beyond economics to embrace the fields of political science, history, and philosophy.

These scholars enthusiastically responded to the challenge and prepared papers which were presented at the opening day's session of the NAM Congress in the order listed above, the day's program being enhanced by the appearance of the President of the United States as Incheon speaker.

In the opinion of many who heard the symposium of four speeches, they presented a thoughtful defense of the private capitalism system and also exposed the sophistry and shallowness of socialist theory. From the pages that follow one may more clearly gather why the defense of free enterprise is the defense of freedom itself, for all Americans.

At a time when this freedom is menaced, as much by ignorance, apathy and defeatism at home as by threat from without, this pamphlet should serve to reanimate the faith which has ever proved the most reliable strength of this Republic, in all its times of trouble.

The Design for Freedom

BY FELIX MORLEY

I have before me a month-old issue of a well-known Washington Letter which is "circulated privately to business men." For obvious reasons quotation is not permitted. But the old friend whose name this report carries will not, I believe, object to the comment I am going to make.

The first page of this issue is devoted to the intense and early commercial preparation for the festive day that we shall now shortly celebrate. Never before, it is suggested, has there been such promotion of Christmas trade. Never before, in addition to customary come-ons, have there been so many secondary gimmicks, such as elaborate carnivals complete with neon lighting, Santas and clowns. Perhaps there is something symbolic about this. Under the lurid light of radioactive fallout the patron saint of Giveaway is working overtime. And the clowns? Well, many of us are now turning compulsory somersaults.

The underlying reason for the emphasis on carnival, the letter suggests, is the intensity of competition—the difficulty of making profits unless retailers can somehow stimulate continuous, large-scale public buying. It is not emphasized, but might well be, that this stepped-up competition is intensified by a tax policy that bears more heavily on production, more lightly on consumption, than that of any other primarily industrial nation. So, to keep out of the red, business uses every psychological aid. The advertiser feels that he must tune singing commercials into wave lengths once reserved for Christmas carols. Japan, they tell me, has shown us the way in this. Not one Japanese in a thousand even professes Christianity. But the day that commemorates the birth of the Saviour has been ballyhooed there into the most profitable merchandising period of the pagan year.

It is not my purpose, and would be beyond my abilities, to analyze all the factors behind this disturbing development in the celebration of Christmas. And, as a parent and grandparent, I certainly do not decry

practice of giving sanctioned by those presents of gold and frankincense and myrrh which wiser men than I once brought to Bethlehem. It is appropriate to my theme, however, to point out that subordination of the spiritual to the material is at variance with the principles on which our Republic was founded, and further that it perhaps operates to weaken our resistance to Communism. Russia, and even China, may quite conceivably some day rival us in the production of consumer goods. It is impossible for Marxists to compete with our inherited spiritual values. Yet these values, which will outrange any governmentally-guided missile, we are strangely undisposed to stockpile in the contest forced upon us.

Everyone in this room, I venture to assume, is familiar with at least the name of the Federalist papers, written by James Madison, Alexander Hamilton and John Jay after the drafting, but before the adoption, of the Constitution. To promote its ratification was the immediate purpose of these famous essays and they contain some passages as ephemeral as any other campaign document. Yet the *Federalist*, as a whole, is securely first as the most important contribution to political philosophy ever written in this country. It will always stand out as a masterly analysis . . . of the fundamental principles upon which the government of the United States was established." And a part of our spiritual decadence can be attributed to the sad fact that this treatise is now largely neglected by our educators, and therefore by the public generally. A friend in Houston writes me that there is no copy of the *Federalist* in the public library of that otherwise great city. This is hard to believe, but if true it helps to explain why it is difficult — though happily no longer impossible — to elect conservatives to Congress from Texas.

The *Federalist*, of course, explains in detail why we have a political system of divided and limited powers. It argues that most men perform best when they are permitted to direct their own lives. For that reason, or on that assumption, our central government was originally given authority over only specifically enumerated functions, all others being reserved to the States or to the people. Centralization of power was further restrained by balancing the executive, the legislative and the judiciary against each other, so that none of them should become tyrannical, either in the nation as a whole or in the States as such. And certain basic rights, such as freedom of religious faith, of speech and

press, of peaceful assembly, were even placed by the Bill of Rights outside the scope of any government, central or local.

All this was almost as familiar as the alphabet to my generation. Now it is largely forgotten in a feverish search for a new "image" of America. The old one—that of a country in which the individual was to be as free as possible from bureaucratic direction or arbitrary governmental controls — is no longer cherished. That is the more curious because intentional limitation of governmental power was certainly largely responsible for the rapid development of the United States. We are not particularly rich in natural resources and no other governments ever felt any duty to subsidize our infant industries. Nor can we honestly claim that our ancestors were a superior breed. Actually, quite a few of them were shipped here as undesirables. But, given freedom, they soon achieved the miracle of our industrial development.

Before we finally lock the door of the lumber-room on the Constitution I think we should soberly ask ourselves just why a political system that has accomplished so much is now so generally deemed unsatisfactory. The Declaration of Independence indicted the British Government for maintaining here "swarms" of officials "to harass our people and eat out their substance." Today the swarm of federal employees alone is about as large as was the entire white population of all the thirteen colonies in 1776. There can be no doubt that a people who once demanded independence *from* centralized government have now come, on the whole, to welcome dependence *on* centralized government. What are the reasons for this fundamental change?

Part of it, of course, can be attributed to changing circumstance. For the majority of early Americans transportation was stabled in the barn, food came from the adjacent fields, fuel was in the wood lot and re-creation, using the word literally, concentrated in the village church. Their problems were not the same as ours. They would have been as unhappy in a traffic jam as we would be without TV.

I fear, however, that we cannot blame our present subordination to government entirely on the change from a simple to a complex civilization. If that were so we would be yielding grudgingly, rather than gladly, to the blandishments of the Welfare State. More people of my age would be ashamed to receive social security payments they do not really need. Fewer women would complain, like the one in Plattsburg the other day, that because his unemployment compensation

was delayed her husband had been forced to take a job. More Americans would consciously indorse "the belief", so eloquently affirmed by President Kennedy in his Inaugural Address, "that the rights of man come not from the generosity of the state but from the hand of God."

Along with a growing necessity for governmental intervention has come what is for us a new *mystique* of government: a belief that human rights, the President to the contrary notwithstanding, *do* come from the state and not from the hand of God. In Mr. Kennedy's official family there are those who certainly seem to think that directive action from the center is desirable of, by and for itself. There is an all too evident assumption that for their own good Americans should be coddled, subsidized, and if necessary regimented "from the cradle to the grave." Along with this is a growing disposition to think that our neighbor somehow acquires a certain *expertise* once he hangs his hat in the labyrinthine corridors of Washington. By mere physical movement to the banks of the Potomac, or overseas on government assignment, he immediately becomes an authority on matters about which he never seemed to know very much in Keokuk or Albuquerque.

I would suggest that it is not so much the actual extension of governmental functions, but rather the pathetic trust in our hastily incubated "experts", that is the most dangerous feature in the trend towards centralization. For this blind faith in a leadership often at least equally blind is a complete alteration of the conception of government which is enshrined in the Constitution. Indeed it is painfully reminiscent of what the Germans, under Hitler, called the *Fuehrerprinzip*. "The state," asserted the Prussian philosopher Hegel two centuries ago, "is the divine on earth." That was certainly not the opinion of the Founding Fathers. Yet, though Prussia has now been wiped from the map to become a Communist spearhead, it is the Prussian rather than the American philosophy of government that threatens to dominate with us today.

We "rest all our political experiments on the capacity of mankind for self-government." Those are the words of James Madison, fourth President of the United States and the principal architect of the Constitution, as set down in No. 39 of the *Federalist*. There is no doubt as to what he meant. This complicated federal republic, in which we all have dual citizenship—of our State and of the nation—will endure only so long as we can prove our ability to handle local problems locally. If we

must turn to Washington to finance our schools, to clear our slums, to hospitalize our sick and support our parents — then obviously we are losing the capacity for self-government. Then we are really becoming "a nation of sheep", fit only to be herded, fed, sheltered, sheared and even butchered as the managerial shepherds decide.

Madison always chose his words carefully. And when he warned us that without self-government the Republic would not survive, he meant the phrase to be taken in the fullest sense. He meant literal self-government; the ability of the citizen to subordinate his passions; to order his life for the common good in an unselfish, thoughtful and cooperative manner. It is indeed obvious, once you consider the point, that the freedom from governmental controls assured by the Constitution necessarily implied a high degree of individual self-control. You cannot, for instance, guarantee freedom of speech unless people show self-restraint in their public utterances. And, by the same token, the more a man is inclined to govern himself according to some moral code, the less need there will be to police his actions by legislation or administrative decree.

This concept of personal self-government comes with religious faith and — so history demonstrates — in no other way. The ancient Greeks strove for individual excellence, and certainly achieved it, largely because they thought that effort was pleasing to their gods. The early Hebrews were guided not only by the Ten Commandments, but also by the catalog of minute ordinances from Jehovah which are set forth in the 21st, 22nd and 23rd chapters of Exodus. While Christianity owes much to these two sources it went further in emphasizing the importance of voluntary self-control. Men and women who had really taken the teachings of Christ to heart, as was generally the case with colonial Americans, had thereby laid the foundation of effective self-government on which the Constitution was based. You no longer hear much about the political importance of Christianity, perhaps because superficially such emphasis seems to run counter to the doctrine of separation of Church and State. I think it important to challenge that misconception.

Of course it makes good sense not to confuse spiritual and political guidance. The priest should never meddle in politics and the most unsavory politician is the one who claims to express the will of God. Church and State were separated in this country primarily to insure

that neither should encroach upon the other's well-defined field. This did not, and could not, mean that religious faith would be without effect on the conduct of our government, and vice versa.

Of late the separation here has not been working out in equilateral fashion. What we see is an increasing subordination of Church to State. In an extraordinary decision this year the Supreme Court ruled that one need not believe in God to administer oaths which owe their validity to a belief in God. Religious instruction of any kind has been all but eliminated from our public schools. While our churches and synagogues are still strong, and happily growing stronger, we must in honesty admit that paganism is also on the march. For many Americans who call themselves Christians the Nativity this year will have no more religious significance than it has for Communists.

All who would effectively resist Communism, all who wish to maintain freedom, had better reflect rather deeply on the inevitable consequences of this spiritual indifference. Orderly conduct, we will all agree, is essential for any successful undertaking, from the management of a household to that of a nation. But order necessitates some measure of coercion. Freedom, on the other hand, is measured by the absence of coercion. Between Order and Freedom, therefore, there is an implied contradiction, a natural hostility. The Art of Politics is the reconciliation of these opposites and the most outstanding achievement of the American people has been to make this reconciliation so largely effective. From this triumph spring all our lesser accomplishments.

Our success is the more remarkable because freedom is not the natural condition of civilized man. Until quite recently, less than a century ago in a large part of our own country, slavery was everywhere accepted as a wholly proper institution. It was called "both expedient and right" by Aristotle, the last of the great Greek philosophers. "From the hour of their birth," he wrote, "some are marked out for subjection, others for rule." Until the coming of Christianity "absolutism held unbounded sway," to quote the phrase used by Lord Acton in his study of *Freedom in Antiquity*. Indeed this had to be the case until men had from some source slowly achieved that "capacity for self-government" which James Madison defined as the essential ingredient of our political system. There can be no doubt that religious faith was the source from which our democratic institutions grew. Alexis de Tocqueville, visiting the young Republic during the Jacksonian era, was greatly impressed

by the fact. In *Democracy in America* he wrote: "The Americans combine the notions of Christianity and of liberty so intimately in their minds that it is impossible to make them conceive the one without the other."

There is no such association today. Many of us today see no connection whatsoever between Christianity and liberty. Yet it is at least an interesting coincidence that the two have declined together in this country, and have been suppressed together in every country where Communism controls.

Now I am not suggesting that, in this ultra-scientific age, the evangelistic faith of our forefathers can, or even should, be revived. Nor do I suggest that religious faith is especially a Christian prerogative, nor even that it is necessarily dependent on formalized observance. What I am saying is that religious faith, to deserve the term, implies a personal loyalty to a spiritual authority that will, in a supreme test, take precedence over that owing to mundane rulers. And it so happens that this doctrine of dual authority was continuously emphasized by Christ, most notably in his famous admonition to "Render unto Caesar the things that are Caesar's; and unto God the things that are God's."

Nobody questions that in a national emergency much must be rendered unto Caesar; life itself in the case of many and up to 91 per cent of income for others. But if Caesar can claim both life and property, and God has *no* priorities, then for all practical purposes Caesar has again become God, even if not formally deified as in the decadence of the Roman Empire.

That is the system which the Communists would restore. "Religion," in Lenin's words, "is the opiate of the people." The General Will, as interpreted by the dictator, is all that counts. Minorities have no rights. Self-government is out, along with the religious faith that developed it. But without the religious concept of self-government there will be no Freedom—only the dictated Order of slavery to the Omnipotent State. And this is worse than chattel slavery because without changing its nature the total state can never, as did the individual master, voluntarily set men free.

It would be nice to believe, and many try to believe, that between our present political thinking, and that of Communism, there is today a complete, irreconcilable, 180 degree difference. I fear it is not so simple. Of course we have not gone down "the road to serfdom" as have the

Communist countries. Deprivation of freedom is still the exception here, and not the rule. But we are certainly seduced by the basic Communist principle of centralized, authoritarian control. We show doubt as to the desirability of self-government and mistrust of the integrity and honesty of private business. Much of this trend is not forced by the complications of our era, but is actually advocated as intrinsically desirable, especially in our colleges. For this I do not blame Communist infiltration so much as our voluntary displacement of religious faith by Statism.

There are some interesting indications that, as we move toward Socialism, Khrushchev is personally inclined to move away from it. The differences with more thoroughly Marxist China is one of them; the downgrading of Stalin seems to be another. A third can be seen in the Russian drive to increase exports. That indicates a desire for foreign exchange to finance imports. Since Russia can herself produce all her military requirements, this may mean a growing impatience with austerity which the Kremlin must heed. In any case the mass executions seem to have ceased and an interview with our President was last week printed in full in Russia. Friends who have been there recently tell me that the churches are now open; priests are tolerated; religious services proceed.

Whether or not these signs are significant, we certainly cannot afford to let down our guard. And nowhere is this more important than in the case of the free market economy. If it is going to be restored in Russia we certainly do not want to see it weakened here. And if Communism continues to be fettered on Russia, the case for opposing any semblance of similar controls here is all the stronger.

Most of you, I feel sure, are convinced believers in Free Enterprise, not only for the United States but as the most desirable world-wide system of exchange. Being human, your belief is doubtless sometimes affected by your immediate interests, in such matters as a desire to have your particular business protected by tariffs. This illogic, on the part of those who resent other instances of governmental intervention, is not admirable. But I do not think it seriously undermines the general business faith in the material advantages of a free, competitive market.

I have been arguing, with Madison, that the spiritual quality in true self-government is an essential part of our Design for Freedom. In closing I would like to emphasize that this is just as true in economic as in political affairs. All life is a matter of constant selection between

alternatives. The free market permits us to choose, in daily living, at the lowest competitive price, between superior and inferior products. Under a planned economy we must accept, at a fixed price, whatever the planners have decided to make available. Can there be any doubt as to which system responds the more readily, not only to purchasing power but also to the personal morality of a people?

Of course the free market is basically only a mechanism. It is like an automobile which, with equal efficiency, carries the doctor on his errand of mercy or the gunman away from the scene of his holdup. The free market will, and does, produce pornography more readily than copies of the *Federalist*, when smut is what Americans want. Few of us, however, object to reasonable controls by government over products clearly corruptive of health or morals. That is part of the necessary police power. But we must always remember that every exercise of State control reduces by that much the right and duty of self-control. It may be in the interest of public order, but is inevitably at the expense of individual freedom.

The market mechanism, we should more fully realize, reflects a faith in freedom that is traditionally American, and which the Socialists completely lack. It demands that men and women choose for themselves—not only in moments of crisis, but continuously. If some are slaves by nature, as Aristotle argued, then the planners are partially justified; by definition the slave is one who is deprived of freedom of choice. But if men have slowly made themselves worthy of freedom, as our forefathers thought, then we must view the free market as the outward and cogent expression of that faith.

To defend the market mechanism is, therefore, to defend values more important than the free enterprise system, or the institution of private property, fundamental though these may seem. It is to defend the substance of self-government, from which our surface assets spring. To defend the free market, indeed, is to align oneself with a lofty as opposed to a degraded conception of the nature of man. It is a defense of Freedom, against the re-establishment of Slavery.

Events have made it our fate to participate in an epic struggle, of which the hectic military rivalry between ourselves and Soviet Russia seems to me only a secondary part. Unfortunately we do not, and cannot, have full understanding of all that is at stake for the future. Immersed in our daily problems, and handicapped by superficial edu-

tion, we have largely lost that capacity for fundamental thinking that was so outstanding among those who framed our form of government. They did the job so well that we were inclined to think it would automatically survive forever.

That was a sad mistake. No business can be so well designed that it will operate over the years without continuous, critical supervision. That is also the case with a Design for Freedom admittedly constructed on a faith in "mankind's capacity for self-government." We need no electronic computers to tell us that this faith is weakening, and that on this weakness Communism builds.

To renew faith is now clearly our primary task, and one that Washington cannot do for us. The fount from which faith comes can never be replenished by a T.V.A., nor even defended by the Pentagon. On the other hand it has not yet, nor ever will, run dry.

As we go out into the glittering streets this evening we could well remember that back of all the gaudy artificialities the true Design for Freedom is still discernible. We might even recall the words, so pertinent for our generation, that George Washington wrote in his Farewell Address:

"Of all the dispositions and habits which lead to political prosperity, Religion and Morality are indispensable supports . . . Let it simply be asked where is the security for property, for reputation, for life—if the sense of religious obligation desert . . . And let us with caution indulge the supposition that Morality can be maintained without Religion."

The Spiritual Strength of the American System

BY HERRELL DEGRAFF

The popular image of the business man seldom casts him in the role of a spiritual being. Nor in my acquaintanceship with him have I found that the business man, more than rarely, regards himself in this light. For my purposes this morning, this circumstance provides our point of departure.

A generalization of history indicates that the articulate world seems always to have been involved in greater or lesser degrees of ideological controversy. On several occasions this has reached the intensity and proportions of Great Reformations, a word that, in this sense, carries no connotation of either good or bad. Examples include the life and teachings of Christ, and the impact on the world over all the centuries since, in like but lesser manner, of the life of Mohammed; similarly the Reformation and Counter Reformation within the Christian Church; and finally, I must list the current deadly serious ideological upheaval between the West and atheistic Communism.

I would not for a moment imply that any in this gathering underrate this ideological crisis. But I submit that we who are one side of this struggle — a struggle not of our choosing — face such a time as comes rarely to men when they must re-assess and re-affirm their own philosophical and spiritual values.

The ultimate tribute to Western philosophy and institutions is the dedication of our ideological opposition to destroy them. This determination alone suggests that there must be, within our philosophy of society and what we have built from it, a sum of values and attainments too great for an opposing philosophy to tolerate as a yardstick against itself.

I am indebted to Professor Gerhart Niemeyer of Notre Dame for a most lucid analysis of the differences in the way the Communists and

the West regard the present struggle. The West tends to treat it basically as a clash of interests between two great powers. Such a concept leads to an expectation—futile in this case—that skillful negotiation by diplomats can settle the differences.

It is a futile approach because to the opposition this is by no means a mere balance-of-power affair. Rather they believe in, and it is their purpose to bring about, what they consider a new age in human society, the emergence of which requires only the destruction of the philosophy and institutions of the prevailing social order.

To this end they are engaged in a total, unceasing struggle on many fronts and by many methods—with success a long-range objective, and with strategic retreat whenever necessary to progress toward ultimate victory. Their strategy is not so much the acquisition of territory as it is the weakening of the philosophical cement that holds together the established order of the Western World. Their aim is people, individuals and groups, stripped of old-order purposes and thus delivered by the default of any higher spiritual values into the “new light” of atheistic authoritarianism.

So often those who have more recently arrived among us can see and interpret our circumstances more clearly than we do ourselves. Listen for a moment to another great intellect. He is Dr. Charles Malik, Professor of Philosophy at the American University in Beirut in his native Lebanon, onetime President of the United Nations General Assembly, and now teaching at American University in Washington. Writing in the December issue of *The Rotarian*, he says: “Morally and spiritually the Communists put free men on the defensive; they make us feel guilty; they talk in terms of ‘capitalism’, ‘imperialism’, ‘colonialism’, ‘monopolies’, ‘profits’, ‘exploitation’, ‘means of production’... And how do we take up the debate? We usually answer that the exploiting capitalism of the 19th century no longer exists, that imperialism has been liquidated, that monopolies are now owned by the people, and that, as to profits, everybody now shares them. There is about this response a pathetic air of apology, a sickly note of timidity, and those who make it suffer from a guilty conscience. When we thus accept to be drawn into debate with the Communists on their own terms, we confirm them in the feeling that they are right. It is as though we were telling them: ‘You are right in your attack; we are sorry for our past ways; but, behold, we have now corrected them.’”

“This will not do. The Communists should be answered, not apologetically, not as though they were right, but in... human, moral, and spiritual terms.”

Every business man should read the whole of Dr. Malik’s challenging article. Let me quote one more sentence: “The present moment in history requires, more than any other moment in the past, that those who know and believe in man, freedom, truth and God, pass to the offensive on every front.”

Dr. Malik calls for a spiritual awakening in the West. Nor is his by any means a lone voice. The struggle is only incidentally in military terms. It is warfare in our time, and perhaps in our children’s children’s time, on philosophical, moral, and spiritual grounds.

How did we get to be a world power? How did we attain the capacity for such great material output? From whence did we develop such a potent philosophical and spiritual force that the now opposing ideology feels compelled to destroy it?

And perhaps another question is just as pertinent. We are yet a young nation, as time is measured in national history. But have we come so far and changed so much that we no longer hold in full measure the humanistic and spiritual values that the opposing forces would destroy? Have we weakened the philosophical foundations of our own society? And if we have, with what do we now oppose the ideology that rises against us?

How much are we devoted to individual freedom of action? How inviolate is the institution of private property? How much do we respect the market as the determinant of production and distribution? How much do we believe in preserving competition—or have we switched to a status-quo concept of preserving competitors? How much do we understand and how much are we devoted to the profit system—or, more accurately, the profit and loss system? How readily do we accept the responsibilities without which the rights of citizenship in a democratic society become a mere license to be a predator on other citizens?

The United States was the first nation, at least in modern times, to establish a form of government, and legal, social and economic institutions, solely of its own choosing. No heavy hand of history stood in the way. No dead weight of institutional rubble blocked the erection of a wholly new structure.

Most writings on American history have been wholly inadequate

in treating the timing of our national origins. America was discovered (more accurately, rediscovered) in the period of exploration that coincided with the weakening and downfall of European feudalism. The 14th century renaissance of learning stirred a great yeast pot that by the mid-16th century led to marked changes in religious philosophy, and most notably in Christian ethics. In earlier monastic idealism, the Christian man was almost called upon to retire from the workaday world. The 16th century changes led to the rise of capitalism in the West. The Protestant Reformation usually has been credited with the motivating force — but this has not seemed to me a full or adequate explanation. I believe it importantly overlooks the teachings of St. Ignatius.

Let me illustrate: (1) The earlier teaching of the Church had been that the position in society into which one is born is an expression of the Will of God, against which it was impious to rebel. The individual thus was called upon to be resigned to his lot, and the trials of this life were held to be of no significance against salvation in the next. (2) St. Ignatius must be credited with a fundamental change. He taught that proper individual action is to pray to God as though everything depends entirely upon God—and then to work and strive as though everything depends upon oneself. This modified the “Will of God” concept to include Reason and Intellect. Responsibility came to rest upon the individual, for the glory of God, to develop his talents, and to follow the dictates of his enlightened conscience. Rather than live in monastic withdrawal, the individual became materially responsible to himself and morally responsible to God.

Add to this a second illustration: (1) The earlier teaching of the Church had been that buying and selling, production for economic gain, trading in material goods—all this was avarice, and avarice is sin. (2) In the contrasting ethics taught by St. Ignatius, man became obligated to God to develop his capacities, to participate in the affairs of the world, and to strive as though his entire well-being depended on his own efforts.

The parallel of this with the ethical teachings of Calvin is complete. Calvin taught that man is responsible to God for his self development; that rather than live unquestioningly in the position in society to which he might be born, he has an obligation to choose his own calling, where he may exercise his talents. This he must do with a sense of

religious responsibility—and he must then live piously and frugally, and morally responsible to God.

Thus whether we see the 16th century as either Protestant or post-Ignatius Catholic, the economic consequences are the same. One could not abide by these revitalized ethical dictates without accumulating a bank account—in other words without becoming a capitalist. It was immediately after these concepts had pervaded European thought that the Colonists moved into Anglo-America. And here they lived these concepts, pursuing them with almost religious fervor, and in a manner that did not distinguish one nationality background from another.

And in like manner to the 16th century re-evaluation of the Christian ethic, the 18th century in Europe was a time when the character and form of government was equally questioned and philosophically recast. Again, the emerging nation here in America directly received the benefit.

It is always difficult to pin down precisely the origins of ideas. The time we are discussing commonly is called The Period of Enlightenment —a time when the philosophical justifications of the Absolutist (monolithic) State and the Divine Right of Kings were so effectively undermined as to weaken them for all time in Western thinking.

The philosophers of The Enlightenment were many, and for the most part deeply religious men. They polished brilliantly the concept of the equality of all men before God — together with the corollary of Reason and Conscience which God had given to men for their guidance. They studied the natural universe, and inferred Natural Law from the behavior and responsibilities of mankind. In and through this Natural Law they developed the concepts of individual human rights, and of the freedoms and the responsibility of man, through his thought and his conduct, to bring the institutions by which man lives into harmony with God's Natural Universe.

Speaking in terms representative of his time and his group, Locke argued that all men being equal and independent before God, it followed that no person has any right to harm another in his life, his liberty, his welfare, or his possessions. And liberty could not degenerate into mere license because of each man's recognized responsibility to God for his actions.

This, I submit, is the exalted, the optimistic, the spiritual, the perfectionist concept of man as an individual being that blossomed from

the seeds of the Renaissance, the revitalization of Christianity, and the notable period of The Enlightenment. This is the philosophy of human rights and responsibilities familiar to, and accepted by, that extraordinary group of men who drafted a Declaration of Independence and a Constitution for a new nation, at precisely the flowering time of these concepts in European philosophical thought.

Most notably from Locke and from Montesquieu, the founding fathers derived the concept of limited and divided governmental authority, of checks and balances among the various divisions of government, of governmental action only with the consent of the governed, and of freedom of individual action retained by the citizen. And though the point hardly needs repeating, their institutions of government were intended to function in a society actively responsive to the moral principles of the revitalized Christian ethic.

If this, then, is the background of our social organization, of our institutions, indeed of those values that a wholly opposed ideology now would destroy, what has been the performance of these values and institutions in practice? The United States is 173 years old, figured from the adoption of its Constitution. At its birth date, the population was under 4 millions. It is today 185 millions—living with material comforts and conveniences, both in total and in general distribution, that could not have been conceived by even the kings of earlier times. One need not dwell on material attainment. The more significant matter is how it was attained.

There were of course, vast resources; there was “the continent to open”; there was the “manifest destiny” that America should expand from ocean to ocean. But the development certainly was not based alone on resources and space. Other areas, other peoples, have had these and still have remained economically dormant. The distinctive difference is in our free economic institutions. Stripped of everything else that fails to explain the blossoming of America as an economic giant, how can we finally discount the institution of private property; the freedom of individual choice and action; the free movement of trade within our boundaries; the right of the individual to strive and to enjoy the fruits of his labor?

It was more than new concepts of government that this young nation acquired from the philosophers of the Enlightenment. The year 1776 witnessed not only the Declaration of Independence but also the

publication of Adam Smith’s “Wealth of Nations,” often called the most important treatise on economics ever published. Listen again to this famous “invisible hand” passage from his book:

“As every individual endeavors as much as he can to employ his capital in the support of industry and so to direct that industry that its products may be of the greatest value, every individual necessarily labors to render the annual revenue of society as great as he can. He generally, indeed, neither intends to promote the public interest or knows how much he is promoting it... He intends only his own gain, and he is in this... led by an invisible hand to promote an end that is not part of his intention. Nor is it the worse for society that this is so. By pursuing his own interest he promotes that of society more effectively than he intends to promote it. I have never known much good to be done by those who affected to trade for the public good.”

Smith, with the other philosophers of his time, believed in private property, in its use by the private holder, and in the retention of gain from its use by those who hold it. The sequence of logic based on Natural Law is that man has a right to life; therefore the right to sustain it; therefore the right to the fruits of his labor including the property derived therefrom. And never elsewhere have these rights, combined with freedom of action and with resource potentials, so greatly unlocked the productive genius of mankind—for the benefit of both individuals and society, and in precisely the manner set forth by Adam Smith in his “invisible hand” passage.

The beginnings were modest, but material production in the American economy has risen at an increasing rate. Stimulated by private property, by the reward of economic gain and the fear of loss, American producers have been the greatest appliers of science and innovators of technology to be found in history. We borrowed science from all over the world and directed it toward answering production problems. Only recently have we turned significant attention to our own research potential in pure science, so that more knowledge may be available to apply to still more production problems.

We have, for the most part, kept the direction of our economic production and consumption in the market place—which is the surest of all ways of directing scarce resources into the uses that contribute the most to satisfying human wants. The market place is where the total society, operating as a committee of the whole, expresses its aggregate

wants in terms of relative marginal utilities. It is likewise where all supply flows, constantly changing and adjusting, to serve the most pressing and the most rewarding of human wants. Thus have our economic activities been directed, not by the dictate of some arbitrary power, not by the authority of a central committee, but strictly according to the reward to be gained for anticipating and satisfying human needs and desires.

To be sure, our society has changed. The America of Washington and Jefferson was 90 percent agrarian. We are today 90 percent urban in our way of life. Our society is now vastly more complex. Interdependence among the millions of divergent specialized producers has displaced the relative independence of an earlier agrarianism. Numberless circumstances that affect individual welfare are far less under individual control than in a simpler day. Still further, the degree and the speed of technological change have progressed so rapidly that resultant social and economic changes have been endlessly pressed to keep pace.

All these changing circumstances in our economy and society have been proceeding for decades. It is the degree of change, and the speed, and the breadth of its impact that now focus attention and concern on these matters far more than in earlier times. That is why individuals of like interests have been grouping themselves together as never before, to promote and protect their mutual concerns. We have become more a groupistic than a truly individualistic society. This fact does not clash with free institutions as long as group membership is voluntary and as long as the groups do not arrogate to themselves compulsory powers over individuals.

And it is these same circumstances of change that have led to demands for what is broadly called social legislation. This is not because Americans fail to appreciate the capacity and productivity of their economy—but rather, and especially since the 1930's, because they fear the instability that reputedly characterizes any highly advanced industrial economy based on free competition. This concern over instability is in part justified, but in far greater part is a carefully nurtured and endlessly expounded view of persons who do not believe in free economic institutions and whose desire is to change them.

Welfare, social legislation, the care of those who have less by those who have more—all have become battle cries in our contemporary public debate. Where do they fit in a society that would retain the free

institutions that have served it so well? The answers are neither simple nor single. Let me make three points.

First, it appears that a prosperous and spiritually awakened people become generous toward the less fortunate about in proportion to the improvement and assurance of their own well-being. This is borne out by the enormous total of charitable contributions by the American people. In consequence I am far from sure that it wise to institutionalize the whole gamut of welfare activities. Obviously, institutionalized, tax-supported welfare greatly reduces the ability of the voluntary giver to do what he otherwise would do. Moreover, institutionalized welfare reduces the personal responsibility both of those who give and of those who receive.

Second, a very substantial burden of welfare cost can be borne by a productive economy, and can be carried indefinitely, if, in order to meet the burden, our fundamental free economic institutions are not changed—and most specifically if the direction of the economy is left in the marketplace. If, to meet welfare demands, the economic activities of the nation are centralized under public control, the capacity for economic progress — including the support of welfare — is inevitably lessened.

Third, there is the question of how far the welfare activities should be extended. Those who do not produce must be carried by those who do. If the load of welfare activities becomes sufficiently great on those who must carry the burden, a rational person might well conclude that "poverty is the best policy." We must remember that all the other demands on the public purse must also be carried entirely by those who do produce. And a free society cannot be maintained if many citizens have been forced to conclude that productive effort is not worthwhile.

It is within the framework of these three points that I believe our present complex welfare questions must be answered.

Looking forward, as a thoughtful people must always do — and desiring continued vitality and drive in our economic advance—some other factors seem clear. Most notable of these is that capital must be accumulated and invested at risk in a truly enormous total quantity.

The labor forces continue to grow. This requires new jobs, new capital, new businesses, new enterprise risks. Technology is making our industrial equipment obsolescent even more rapidly than it is wearing out. A new tool to displace an old one, a new technique better than

one now in use, a new plant engineered to tomorrow's needs—all these are vastly more costly than depreciation allowances will cover.

New capital arises only from earnings plowed back or from the current savings of the public. Saving must be made attractive, and the future value of savings must be assured, or the capital we need will not be forthcoming. Business enterprise must not be denied its essential reward for service performed, or the capital that is saved will not be borrowed and allocated to productive expansion. A market-directed economy, if we will preserve it, is the surest first step in answering all these needs.

Perhaps much of the lack of understanding of competitive enterprise, its loss of prestige as indicated by Dr. Malik, the very anemia from which our free economic institutions seem to be suffering, is all traceable to the common tendency to criticize business profits. Most would agree that a businessman's first responsibility is to protect and preserve the enterprise that is in his stewardship. But if that is his first job, his parallel responsibility is to make a profit—in fact, the biggest profit possible in a competitive environment.

Reconsider the origin of a profit in business. First, it must be derived from a good or a service that is wanted in the market place—otherwise there will be no customers. Second, it must come from combining cost factors, skillfully enough to leave a margin between a competitively determined selling price and competitively determined costs for the production factors.

Resources to satisfy human wants are scarce. Service to society dictates that they be used efficiently, and for turning out the most desired goods. The skill to use resources—that is, the skill to organize and to manage—is a scarce talent. The more skillfully the management function is performed in fulfilling the wants of society as expressed in the market place, the more profitable a business will be.

Need I say that a profit is difficult to come by? Need I emphasize that in a free and competitive market, the size of the profit derived is in direct proportion to the competitive service offered to society? Need then a businessman ever apologize for a profit? The question is rhetorical.

Profit is the life blood of a free economy. The opportunity to make a profit—or the corollary, the spur of ever possible loss—is the “invisible hand” that provides our essentials and our comfort, completely auto-

matically, and in an economic system so vast and complex that no person can even describe it, to say nothing of fully understanding or being able to direct it. In guiding the economy to the satisfaction of society's requirements, the profit system does what no central authority is capable of doing—even granting that the authority might be staffed by the most able managers among us. It is one thing to take a relatively primitive economy and direct its efforts toward a few types of output—say steel, or submarines, or rocketry. It is quite another thing to direct a more developed and vastly more complex economy, the purpose of which is to satisfy the whole infinite range of human goals and wants.

The profit system, working through free institutions, is the sparkplug of this second type of economic system—a sparkplug so dependable and effective that the ideological opposition we now face will do everything in their power to disparage it, to undermine it, to turn us away from it if they can, and to destroy it as completely as possible.

Just one more point. Every job and every home in the length and breadth of our nation is maintained because the business process has functioned and made a profit—either a profit in the past or a profit now or the reasonable hope of a profit in the future. And any school has the same origin, or any church, or any charity, or any welfare payment—or, indeed, any government function. All of these—our personal welfare, our public welfare, our future welfare—stand on a single support: the profits of enterprise.

The distinction between our economy and the Communist type is the profit system versus the Central Authority; the institution of private property versus ownership by the State, the freedom of individual choice and action versus the denial of these rights. Let us keep these distinctions clear. Let us be proud of our heritage and of the stewardship with which we carry it forward in a free society.

There is no group in our country upon whom this responsibility rests more squarely than on the managers of enterprise and of our capital assets. In efficient production, and in the further advance of widely distributed social benefits, we have the surest basis to cancel out an absolutist and atheistic ideology that would destroy us. We cannot do this by slavish, inept imitation of that alien code. The task demands the best we have to give, pursued with nothing short of spiritual dedication.

The Moral Element in Free Enterprise

BY F. A. HAYEK

Economic activity provides the material means for all our ends. At the same time, most of our individual efforts are directed to providing means for the ends of others in order that they, in turn, may provide us with the means for our ends. It is only because we are free in the choice of our means that we are also free in the choice of our ends.

Economic freedom is thus an indispensable condition of all other freedom, and free enterprise both a necessary condition and a consequence of personal freedom. In discussing The Moral Element in Free Enterprise I shall therefore not confine myself to the problems of economic life but consider the general relations between freedom and morals.

By freedom in this connection I mean, in the great Anglo-Saxon tradition, independence of the arbitrary will of another. This is the classical conception of freedom under the law, a state of affairs in which a man may be coerced only where coercion is required by the general rules of law, equally applicable to all, and never by the discretionary decision of administrative authority.

The relationship between this freedom and moral values is mutual and complex. I shall therefore have to confine myself to bringing out the salient points in something like telegraphic style.

It is, on the one hand, an old discovery that morals and moral values will grow only in an environment of freedom, and that, in general, moral standards of people and classes are high only where they have long enjoyed freedom—and proportional to the amount of freedom they have possessed. It is also an old insight that a free society will work well only where free action is guided by strong moral beliefs, and, therefore, that we shall enjoy all the benefits of freedom only where freedom is already well established. To this I want to add that freedom, if it is to work well, requires not only strong moral standards but moral standards of a particular kind, and that it is possible in a free society

for moral standards to grow up which, if they become general, will destroy freedom and with it the basis of all moral values.

Before I turn to this point, which is not generally understood, I must briefly elaborate upon the two old truths which ought to be familiar but which are often forgotten. That freedom is the matrix required for the growth of moral values—indeed not merely one value among many but the source of all values—is almost self-evident. It is only where the individual has choice, and its inherent responsibility, that he has occasion to affirm existing values, to contribute to their further growth, and to earn moral merit. Obedience has moral value only where it is a matter of choice and not of coercion. It is in the order in which we rank our different ends that our moral sense manifests itself; and in applying the general rules of morals to particular situations each individual is constantly called upon to interpret and apply the general principles and in doing so to create particular values.

I have no time here for showing how this has in fact brought it about that free societies not only have generally been law-abiding societies, but also in modern times have been the source of all the great humanitarian movements aiming at active help to the weak, the ill, and the oppressed. Unfree societies, on the other hand, have as regularly developed a disrespect for the law, a callous attitude to suffering, and even sympathy for the malefactor.

I must turn to the other side of the medal. It should also be obvious that the results of freedom must depend on the values which free individuals pursue. It would be impossible to assert that a free society will always and necessarily develop values of which we would approve, or even, as we shall see, that it will maintain values which are compatible with the preservation of freedom. All that we can say is that the values we hold are the product of freedom, that in particular the Christian values had to assert themselves through men who successfully resisted coercion by government, and that it is to the desire to be able to follow one's own moral convictions that we owe the modern safeguards of individual freedom. Perhaps we can add to this that only societies which hold moral values essentially similar to our own have survived as free societies, while in others freedom has perished.

All this provides strong argument why it is most important that a free society be based on strong moral convictions and why if we want to preserve freedom and morals, we should do all in our power to

spread the appropriate moral convictions. But what I am mainly concerned with is the error that men must first be good before they can be granted freedom.

It is true that a free society lacking a moral foundation would be a very unpleasant society in which to live. But it would even so be better than a society which is unfree and immoral; and it at least offers the hope of a gradual emergence of moral convictions which an unfree society prevents. On this point I am afraid I strongly disagree with John Stuart Mill, who maintained that until men have attained the capacity of being guided to their own improvement by conviction or persuasion, "there is nothing for them but implicit obedience to an Akbar or Charlemagne, if they are so fortunate as to find one." Here I believe T. B. Macaulay expressed the much greater wisdom of an older tradition, when he wrote that "many politicians of our time are in the habit of laying it down as a self-evident proposition that no people are to be free till they are fit to use their freedom. The maxim is worthy of the fool in the old story, who resolved not to go into the water till he had learned to swim. If men are to wait for liberty till they become wise and 'good,' they may indeed wait forever."

But I must now turn from what is merely the re-affirmation of old wisdom to more critical issues. I have said that liberty, to work well, requires not merely the existence of strong moral convictions but also the acceptance of particular moral views. By this I do *not* mean that within limits utilitarian considerations will contribute to alter moral views on particular issues. Nor do I mean that, as Edwin Cannan expressed it, "of the two principles, Equity and Economy, Equity is ultimately the weaker . . . the judgment of mankind about what is equitable is liable to change, and . . . one of the forces that causes it to change is mankind's discovery from time to time that what was supposed to be quite just and equitable in some particular matter has become, or perhaps always was, uneconomical."

This is also true and important, though it may not be a commendation to all people. I am concerned rather with some more general conceptions which seem to me an essential condition of a free society and without which it cannot survive. The two crucial ones seem to me the belief in individual responsibility and the approval as just of an arrangement by which material rewards are made to correspond to the value which a person's particular services have to his fellows; *not* to

the esteem in which he is held as a whole person for his moral merit.

I must be brief on the first point—which I find very difficult. Modern developments here are part of the story of the destruction of moral value by scientific error which has recently been my chief concern—and what a scholar happens to be working on at the moment tends to appear to him as the most important subject in the world. But I shall try to say what belongs here in a very few words.

Free societies have always been societies in which the belief in individual responsibility has been strong. They have allowed individuals to act on *their* knowledge and beliefs and have treated the results achieved as due to them. The aim was to make it worthwhile for people to act rationally and reasonably and to persuade them that what they would achieve depended chiefly on them. This last belief is undoubtedly not entirely correct, but it certainly had a wonderful effect in developing both initiative and circumspection.

By a curious confusion it has come to be thought that this belief in individual responsibility has been refuted by growing insight into the manner in which events generally, and human actions in particular, are determined by certain classes of causes. It is probably true that we have gained increasing understanding of the *kinds* of circumstances which affect human action—but no more. We can certainly not say that a particular conscious act of any man is the necessary result of particular circumstances that we can specify—leaving out his peculiar individuality built up by the whole of his history. Of our generic knowledge as to how human action can be influenced we make use in assessing praise and blame—which we do for the purpose of making people behave in a desirable fashion. It is on this limited determinism—as much as our knowledge in fact justifies—that the belief in responsibility is based, while only a belief in some metaphysical self which stands outside the chain of cause and effect could justify the contention that it is useless to hold the individual responsible for his actions.

Yet, crude as is the fallacy underlying the opposite and supposedly scientific view, it has had the most profound effect in destroying the chief device which society has developed to assure decent conduct—the pressure of opinion making people observe the rules of the game. And it has ended in that *Myth of Mental Illness* which a distinguished psychiatrist, Dr. T. S. Szasz, has recently justly castigated in a book so titled. We have probably not yet discovered the best way of teaching

people to live according to rules which make life in society for them and their fellows not too unpleasant. But in our present state of knowledge I am sure that we shall never build up a successful free society without that pressure of praise and blame which treats the individual as responsible for his conduct and also makes him bear the consequences of even innocent error.

But if it is essential for a free society that the esteem in which a person is held by his fellows depends on how far he lives up to the demand of moral law, it is also essential that material reward should *not* be determined by the opinion of his fellows of his moral merits but by the value which they attach to the particular services he renders them. This brings me to my second chief point: the conception of social justice which must prevail if a free society is to be preserved. This is the point on which the defenders of a free society and the advocates of collectivist system are chiefly divided. And on this point, while the advocates of the socialist conception of distributive justice are usually very outspoken, the upholders of freedom are unnecessarily shy about stating bluntly the implications of their ideal.

The simple facts are these: We want the individual to have liberty because only if *he* can decide what to do can he also use all his unique combination of information, skills and capacities which nobody else can fully appreciate. To enable the individual to fulfill his potential we must also allow him to act on his own estimates of the various chances and probabilities. Since we do not know what he knows, we cannot decide whether his decisions were justified; nor can we know whether his success or failure was due to his efforts and foresight, or to good luck. In other words, we must look at results, not intentions or motives, and can allow him to act on his own knowledge only if we also allow him to keep what his fellows are willing to pay him for his services, irrespective of whether we think this reward appropriate to the moral merit he has earned or the esteem in which we hold him as a person.

Such remuneration, in accordance with the value of a man's services, inevitably is often very different from what we think of his moral merit. This, I believe, is the chief source of the dissatisfaction with a free enterprise system and of the clamor for "distributive justice". It is neither honest nor effective to deny that there is such a discrepancy between the moral merit and esteem which a person may earn by his actions and, on the other hand, the value of the services

for which we pay him. We place ourselves in an entirely false position if we try to gloss over this fact or to disguise it. Nor have we any need to do so.

It seems to me one of the great merits of a free society that material reward is *not* dependent on whether the majority of our fellows like or esteem us personally. This means that, so long as we keep within the accepted rules, moral pressure can be brought on us only through the esteem of those whom we ourselves respect and not through the allocation of material reward by a social authority. It is of the essence of a free society that we should be materially rewarded not for doing what others order us to do, but for giving them what they want. Our conduct ought certainly to be guided by our desire for their esteem. But we are free because the success of our daily efforts does not depend on whether particular people like us, or our principles, or our religion, or our manners, and because *we* can decide whether the material reward others are prepared to pay for our services makes it worth while for us to render them.

We seldom know whether a brilliant idea which a man suddenly conceives, and which may greatly benefit his fellows, is the result of years of effort and preparatory investment, or whether it is a sudden inspiration induced by an accidental combination of knowledge and circumstance. But we do know that, where in a given instance it has been the former, it would not have been worth while to take the risk if the discoverer were not allowed to reap the benefit. And since we do not know how to distinguish one case from the other, we must also allow a man to get the gain when his good fortune is a matter of luck.

I do not wish to deny, I rather wish to emphasize, that in our society personal esteem and material success are much too closely bound together. We ought to be much more aware that if we regard a man as entitled to a high material reward that in itself does not necessarily entitle him to high esteem. And, though we are often confused on this point, it does not mean that this confusion is a necessary result of the free enterprise system — or that in general the free enterprise system is more materialistic than other social orders. Indeed, and this brings me to the last point I want to make, it seems to me in many respects considerably less so.

In fact free enterprise has developed the only kind of society which, while it provides us with ample material means, if that is what we mainly

want, still leaves the individual free to choose between material and non-material reward. The confusion of which I have been speaking—between the value which a man's services have to his fellows and the esteem he deserves for his moral merit—*may* well make a free enterprise society materialistic. But the way to prevent this is certainly not to place the control of all material means under a single direction, to make the distribution of material goods the chief concern of all common effort and thus to get politics and economics inextricably mixed.

It is as least possible for a free enterprise society to be in this respect a pluralistic society which knows no single order of rank but has many different principles on which esteem is based; where worldly success is neither the only evidence nor regarded as certain proof of individual merit. It may well be true that periods of a very rapid increase of wealth, in which many enjoy the benefits of wealth for the first time, tend to produce for a time a predominant concern with material improvement. Until the recent European upsurge many members of the more comfortable classes there used to decry as materialistic the economically more active periods to which they owed the material comfort which had made it easy for them to devote themselves to other things.

Periods of great cultural and artistic creativity have generally followed, rather than coincided with, the periods of the most rapid increase in wealth. To my mind this shows *not* that a free society must be dominated by material concerns but rather that with freedom it is the moral atmosphere in the widest sense, the values which people hold, which will determine the chief direction of their activities. Individuals as well as communities, when they feel that other things have become more important than material advance, can turn to them. It is certainly not by the endeavor to make material reward correspond to all merit, but only by frankly recognizing that there are other and often more important goals than material success, that we can guard ourselves against becoming too materialistic.

Surely it is unjust to blame a system as more materialistic because it leaves it to the individual to decide whether he prefers material gain to other kinds of excellence, instead of having this decided for him. There is indeed little merit in being idealistic if the provision of the material means required for these idealistic aims is left to somebody else. It is only where a person can himself choose to make a material

sacrifice for a non-material end that he deserves credit. The desire to be relieved of the choice, and of any need for personal sacrifice, certainly does not seem to me particularly idealistic.

I must say that I find the atmosphere of the advanced Welfare State in every sense more materialistic than that of a free enterprise society. If the latter gives individuals much more scope to serve their fellows by the pursuit of purely materialistic aims, it also gives them the opportunity to pursue any other aim they regard as more important. One must remember, however, that the pure idealism of an aim is questionable whenever the material means necessary for its fulfillment have been created by others.

In conclusion I want for a moment to return to the point from which I started. When we defend the free enterprise system we must always remember that it deals only with means. What we make of our freedom is up to us. We must not confuse efficiency in providing means with the purposes which they serve. A society which has no other standard than efficiency will indeed waste that efficiency. If men are to be free to use their talents to provide us with the means we want, we must remunerate them in accordance with the value these means have to us. Nevertheless, we ought to esteem them only in accordance with the use they make of the means at *their* disposal.

Let us encourage usefulness to one's fellows by all means, but let us not confuse it with the importance of the ends which men ultimately serve. It is the glory of the free enterprise system that it makes it at least possible that each individual, while serving his fellows, can do so for his own ends. But the system is itself only a means and its infinite possibilities must be used in the service of ends which exist apart.

Right Across the Board

BY JOHN DAVENPORT

I was aware, in accepting your generous invitation to speak before the Congress of American Industry, that I was taking on a difficult task. It is not easy to say anything worthwhile after addresses by such distinguished scholars as Dr. Morley, Professor DeGraff, and Professor Hayek, who have so well presented to you the higher meaning and values implicit in our system of private business enterprise. But in addition, all of us on this program must feel somewhat cut down to size, to say the least, by appearing on the same occasion as the President of the United States. As I believe some Republicans discovered during the last presidential campaign, it is no easy task to speak (or appear on television) before Mr. Kennedy. But if there is one thing more difficult than that, it is perhaps to be invited to speak after him.

Yet, in a very special way, the appearance of the President here today has re-enforced what should be obvious — namely, the extraordinary importance of American business itself in shaping the destiny of the United States. That importance is very poorly measured in terms of the contribution which manufacturers make to the output of goods and services in this country, though that is enormous. It resides in the fact that private American enterprise is the underpinning of higher liberties as previous speakers have emphasized, and for this we owe them a special debt of thanks. For too long, businessmen have been regarded, and sometimes regarded themselves, as simply handymen in the total economic and political process. For too long, word has gone out and been accepted that while business and private enterprise may be all right in their way—and surely need buttering up on occasion—still the really important challenges of the modern world must be met by government action and by enlargement of what is euphemistically called the “public sector.” The truth is, however, that government spending is by no means the best way to serve many public ends. Feeding people is public business, clothing them is public business, housing them

is public business, and in all these areas and many more it is private American enterprise which, as the saying goes, delivers the goods — and the goods, incidentally, which people choose and want, not those chosen for them by some bureaucrat or high-minded government planner!

But the precise issue which we face, and the reason for this symposium, is how this marvelous system of free enterprise is to be preserved and expanded. And in this those of you gathered here, as well as many another businessman, find yourselves in a peculiar position as both player of the enterprise game and at the time the custodian and guardian of the market system of economy. Now to be a player of the game and a preserver of the rules of the game is not an easy assignment (the great halfback may not be the best designer of the rules of football). And in no field, I imagine, is this dual assignment more difficult than in that of foreign trade and exchange, where some of you are importers, some exporters, and some just domestic producers caught in the middle. Yet soon or late, and apparently soon, you will have to make up your minds, individually or corporately, on how you will cast your influence toward the new trade program which the Kennedy Administration is now mounting with the purpose of enlarging trade and investment in the Atlantic world, and, one may hope, in the whole non-Soviet world.

You will forgive me, therefore, for addressing most of my remarks to this issue and topic, for I know of none which calls for clearer and more objective thinking on the part of the American business community. What I have to say will, I’m afraid, not be wholly pleasing to some members of this audience—but bear with me; it will not be entirely pleasing, either, to some of our Washington planners who are currently wrapping themselves in the free-enterprise banner.

By way of clearing or darkening counsel, let me begin with a personal confession: I have long been a confirmed, unregenerate and, if we must use the term, reactionary *free trader!* In a country devoted to enterprise, the American tariff continues to seem to me a quaint anachronism, though my reasons for favoring tariff reduction differ radically from those being put forward by the Administration. As I understand it, the Administration wants new tariff-cutting powers in order to meet the so-called threat of the emerging European Common Market. The nations of Europe are currently reducing tariffs and other

trade barriers vis-a-vis each other while maintaining a common tariff wall vis-a-vis outsiders, including the U. S. This must sooner or later endanger the present pattern of U. S. exports, and it is to meet this threat that the President now wants larger negotiating powers.

There is something to be said for this argument for U. S. tariff reduction as a bargaining proposition, but I do not think that it cuts to the heart of the matter. The enduring argument for free trade is that exports are important because they pay for imports which will benefit the American consumer, who is or should be king in our market economy. Today he is far from being king, but so much more the pity. As a householder in New York City, I must say that I resent the system of American oil quotas which today tries to keep cheap foreign oil out of this country and so contributes to my monthly fuel bill. As the father of six daughters, I likewise resent the so-called voluntary quota system we have imposed on Japan in an attempt to keep out low-priced Japanese textiles. It was no doubt highly inconvenient to Japan when the development of synthetic fibers in the U. S. ruined its silk trade as well as our own, but we are all better off for the development of synthetics. And it seems to me highly inconsistent and downright perverse that we should now try to keep Japanese products out of our market simply because they have temporarily beaten us at the synthetic game. Not so, gentlemen, does the world advance.

But the second reason for favoring free trade — and this comes closer to the main line of our discussion—is that protectionism in all its forms is an unwarranted interference of the government in our lives. Fundamentally, the tariff, and even more the import quota, is a *subsidy* paid by the consumer to inefficient producers. If you prevent me from buying cheap Japanese textiles and cameras, then I have so much less to spend for other goods which the U. S. can produce more efficiently, and you likewise penalize the efficient exporter who might have sold his product abroad in return for a Japanese import. In the beginning, of course, when we had a tariff for revenue only, this kind of subsidization was no great matter. But today our quotas and tariffs, with their attendant complicated mechanism of "peril point," escape clauses, and the endless lucubrations of the Tariff Commission itself, are a very distinct form of government interventionism. True, the tariff and the quota are not as heinous as exchange controls. Yet, as in other spheres of life, one thing, as the saying goes, leads on to another, and protectionism in all

its forms is first cousin, at least, to economic planning and at variance with the principles of the free market, to which as a nation we are committed.

From this point of view, I should be for the reduction of American tariffs and the complete elimination of quotas even if we were to receive *no similar reciprocal favors in return and had to act unilaterally*. I am aware that such a proposal will bring anguished cries from the Tariff League and other organizations, who argue that if we reduce trade barriers we shall be flooded by cheap imports from abroad due to the fact that most countries pay far lower wages than in the United States. I shall have more to say on the subject of wages and inflation in a moment, but let me say here that I am profoundly skeptical about this general argument. If historic differentials in wage levels were an absolute bar to profitable exchange of goods, then foreign trade would have dried up centuries ago since rich nations can always afford higher wages than poorer ones. What counts in foreign trade is not just wages but *costs*, which also reflect productivity; and in 1959, despite serious wage distortions, national output per worker in the U. S. was still over double that of England, four times that of Italy, and over seven times that of Japan.

Moreover, let me remind my protectionist friends of what they should have learned in Economics 1-A, that it is *comparative* rather than absolute advantage which determines the flow of trade. A businessman may be a great executive and an excellent cook (as no doubt some of you are), but it still pays him to hire a cook and to stick to his executive responsibilities—i.e., to specialize. It is this specialization which has built Detroit and Pittsburgh, which no doubt could grow wine if they were so minded but have found that it is better to leave wine growing to upper New York State and to California. Just so with the trade of nations. On some calculations, the complete removal of U. S. tariffs and quotas might increase our imports by one to \$3 billions, an advantageous increase from the free trader's point of view, but scarcely a catastrophic one-way "flood," the more so because these goods in the end would have to be paid for by exports. What would be true is that the U. S. would import what it can produce only at high relative cost, while exporting what comes naturally—a gain, in my judgment, to the hard-pressed housewife, and I must add, to the paterfamilias who pays the bills.

These are the unassailable and long-standing arguments for a free trade policy, and they seem to me as good today as when first put forward by Adam Smith in his *Wealth of Nations*—published, let us remind ourselves, in the same year as the Declaration of Independence. I am all for their implementation, but I would also, Mr. Chairman, issue a note of warning: let us make sure that the official advocates of free trade give us the real article and not some fake substitute. In this connection I am troubled by the Administration's proposal that manufacturers and industries that get hurt, if and as tariffs are reduced, should be subsidized by the government. For such subsidization could lead all too easily to more interference in our lives and to a species of government planning.

I also believe that the Administration is putting far too much emphasis on our trade relations with Europe at the expense of non-European nations. In forming the Common Market, European countries are taking a step which we in the U. S. made over one hundred and fifty years ago. Let us by all means welcome the unification of Europe, but let us not be thrown off balance by it or treat the Common Market as some new miraculous invention. Let us recall that the U. S. has important trading connections outside Europe, with Latin America and the Far East. And if we reduce tariffs toward Europe, let us give our traditional most-favored nation treatment to others, notably Japan, lest we drive Japan into trading with Communist China.

But, more importantly, I would submit that if a policy of freer trade is to succeed and prosper, then the Administration must take steps to arrest inflation at home and restore confidence in the American dollar. This is particularly critical in view of the condition of our balance of payments. In 1961 U. S. exports will top imports by a comfortable margin, but will fall short of covering all our payments abroad by some two to \$3 billions, accompanied by renewed loss of gold. Protectionists all too often argue that this situation could be cured by raising our tariffs. I believe they are wrong. But I also believe that Administration spokesmen are fostering a dangerous illusion when they imply that our foreign position will necessarily straighten out if we adopt a more liberal trade policy. If we obtain tariff concessions from the Common Market by reducing our own barriers, we shall at best maintain our exports at their present *unsatisfactory* level; and to obtain the concessions we shall have to increase imports. Thus at the end of the whole

exercise, other things remaining the same, our net foreign position might be no better than it is today.

The blunt fact is that the difficulties which the U. S. is having in balancing its accounts abroad go deeper than commercial policy, and cannot be cured by tinkering the tariff up or down. One cause of our difficulties is no doubt the extraordinary nature of many of the outpayments which the U. S. is now making abroad. We are spending several billions per year in support of U. S. troops and bases overseas—commitments which can be trimmed but scarcely drastically cut with safety. But we are also pouring out many more billions for foreign economic aid which, unlike private investment, earns no large return in interest and dividends, and which all too often goes to socialize the very countries we are trying to help. I am not prepared to argue for the elimination of all foreign aid. I do believe that it needs to be reduced and to be tightened up in our own interest and in the interest of the recipients.

Even this would not be enough, in my judgment, to put our foreign balance right. The real problem of our position is that dollars which the U. S. pays out abroad do not flow back to this country for the purchase of goods or in the form of investment. And I submit that the biggest single reason for this is a certain inflationary bias within the U. S. itself. I have argued that historic differences in wage levels between rich nations and poor are no bar to profitable two-way trade. But not even the most productive nation in the world can afford policies which wrench up its levels of costs and then validate this increase through monetary expansion. For inflation — open or concealed — is bound to penalize exports, over-stimulate imports relative to our ability to pay for them, and worst of all, engender fears for the safety of the dollar which in turn lead on to the withdrawal of gold. If we are to earn our way abroad, we must do what the Kennedy Administration has thus far shown no signs of doing—namely, put our own house in order.

I would place first in this connection, because it is all too easily forgotten, the liquidation of our misguided farm program, which for years has put high and rigid support stilts under many of our farm commodities. The result of this program has been to penalize our normal commercial exports of cotton unless subsidized by government. High supports have likewise increased the domestic price of food and thus stimulated pressure on wages. Finally, these supports have created

the great American surpluses of wheat, cotton, and other commodities which the government is now seeking desperately to give away to the rest of the world. But giving away commodities is no substitute for normal trade and in fact penalizes other producers all over the world. Giveaway programs are a form of "dumping," which is as odious when practiced by the U. S. as when practiced by the late Dr. Schacht or by Soviet Russia.

The second cause of our drift toward higher costs is more familiar —namely, extreme trade union pressure on wages, with scant regard to productivity gains and, more importantly, to distribution of these gains. For a hundred years before unions became powerful, real wages in the U. S. in fact advanced fairly rapidly as productivity increased through new invention and mechanization. Now we find ourselves in somewhat different circumstances. In the late fifties, for instance, wages in manufacturing as a whole advanced a good deal more rapidly than productivity in manufacturing, and far more rapidly than productivity in the economy as a whole. More recently, the general wage push has somewhat slowed down, but it is taken for granted in many quarters that if a particular industry makes some striking productivity advance, labor is entitled to the whole of it. This is perverse doctrine, for it means that the high-productivity industries have little left over from which to make price reductions to the public and so enlarge their markets. Think of it!—we have seen no real price reduction in steel for many years. And until the arrival of the compact car, we had seen almost no price reduction in automobiles — once famous for cost and price cutting. Henry Ford has indeed become a legendary figure.

But the mischief wrought by artificial and monopoly-set wages is still more far reaching. For I am convinced that it is a principal cause, if not *the* principal cause, of domestic unemployment, which in its turn leads on to government efforts to rectify the situation by inflationary credit and fiscal policies. I cannot now elaborate this thesis in detail, but surely it commends itself both to common sense and theoretical analysis.

We all know that if a businessman sets his price too high, he may reduce his market. It would follow that if wages are set above free market levels and endanger profit margins, there will be a reduction in job opportunities. Nor need we call on reactionary economists to support this point. I give you Senator Paul Douglas and also the late Sum-

ner Slichter, who once wrote that the idea of increasing wages in times of slack business in order to increase "purchasing power" was, in his phrase, "Alice-in-Wonderland economics." I also cite the late Lord Keynes himself. It was Keynes' thesis that there are times when unemployment is so massive that only increased government spending will cure it. But the whole purpose of such spending was to raise producer prices faster than money wages, temporarily reducing real wages and thus restoring profits. If, while the government is trying to spend us into prosperity, money wages advance rapidly, then the whole recovery process will be aborted, unless still more massive doses of inflation are administered.

Today this is about what we have bought: maladjustment in wages produces unemployment; the government then tries to spend us out of our difficulties; wages again advance, and so we are on a perpetual inflationary ratchet. And this, of course, does have the most profound effect on our external balance of payments position, and indeed, can affect it even where there is no sharp advance in the price level. It is no happenstance that the first big postwar withdrawal of gold from this country, in 1958, occurred when foreigners realized that in order to cure the recession of 1957-58 the Eisenhower Administration would run a budget deficit of some \$12 billions in fiscal 1958-59. Nor is it just happenstance that we are again suffering a scare about gold now that the Kennedy Administration, inheriting a budget nearly in balance, will run a deficit of \$6 to \$7 billions in the present fiscal year—a deficit the more ominous because the Federal Reserve continues with a relatively easy money policy.

The Kennedy Administration has been trying to stop this gold outflow by what appear to me very inadequate and in some cases dangerous means. It has, for instance, cut down on the amount of goods which American tourists can bring into this country duty free. It has taken a rather dim view of U. S. private investment abroad because this means, in the first instance, the outpayment of dollars, and would apparently like to reduce it. All this is surely fiddling while Rome burns. There is, I submit, only one way to restore confidence in the American dollar, and that is to harden it *so that it is as good as goods as well as good as gold*. If we do this, I think we can be assured that our foreign balance of payments will come right. If we do not do this, I believe that we are in imminent danger, despite assurances from the President, of being

driven into some form of exchange control, which is by far the worst form of protectionism and which would thoroughly wreck our free economy.

So I hope it is by now apparent that, while I favor the cause of tariff reduction, and indeed, elimination, I do not believe we should be diverted from undertaking equally vital tasks at home. On the contrary, a policy of freer trade should go hand in hand with eliminating the stilts under our farm economy, with reducing union monopoly privileges, and with fiscal prudence. We must move, not on one, but on two fronts at once, and to some degree they will re-enforce each other. I believe I am right in saying that it has been competition from abroad in steel and automobiles that has brought home, as perhaps nothing else could, to the American worker if not to his leaders, that there is a limit beyond which costs cannot be fecklessly increased without endangering job opportunities. Be this as it may, we need the discipline of external competition as much as we need the discipline inherent in our own huge free market. In the last analysis, domestic and international economic policy cannot be separated. What is good for free enterprise at home is good for its expansion abroad, and in the phrase of the late Charles Wilson, "vice versa."

It is for businessmen like yourselves, who have such large influence, to see our problems in these larger terms. If you simply resist tariff reductions and the elimination of quotas under the old and outworn arguments of protectionism, it seems to me that you will be throwing away a large opportunity. On the other hand, you are duty bound to insist that the effort to free up trade be accompanied by domestic measures which will maintain the integrity of the dollar; and all of us must be on our guard lest Washington's new trade program degenerate into just another attempt at specious international "planning." The wise course, the prudent course, I submit, is to apply the principles of the market economy right across the board. In doing so you will no doubt be called "reactionary" and other hard names, but at least you will be reactionary in a good cause—the cause of individual freedom and initiative and the *limitation* of the powers of government and state to their rightful place in our affairs.

For this, of course, is the larger task, and in conclusion I must apologize for having concentrated to such a degree on a single specific and practical topic. But it has seemed to me that this subject of "free

trade" does in fact bring into sharp relief and focus many, if not all, of the economic, and indeed, the political and deeper constitutional issues which confront us. And it surely demonstrates, as indicated at the beginning, the real difficulties of your dual role as players of the enterprise game and as guardians of the enterprise system. Guard it well! And in the process, recall the concluding lines of Emerson's essay on Self-Reliance:

"A political victory, a rise in rents, the recovery of your sick or the return of your absent friend, or some other favorable event raises your spirits, and you think good days are preparing for you. Do not believe it. Nothing will bring you peace but yourselves. Nothing will bring you peace but the triumph of principles."